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ABSTRACT

The Aspen Institute's ongoing action-research program, Local Employment Approaches for the Disadvantaged (LEAD), assessed 60 programs nationally. Local initiatives fell into four general categories, with numerous subcategories: self-employment, job training and placement, job creation and retention, and community-based finance. A second breakdown matches the types of programs encountered with five distinct client groups. Findings indicated that dramatically impressive model programs can be found across the spectrum of intervention strategies, and collectively these programs serve all levels of clients. The best of today's programs have the following characteristics: (1) they serve as empowerment vehicles by devolving responsibility for performance to clients while creating an atmosphere of dignity, discipline, and high expectation; (2) they link poverty alleviation directly to broader economic development goals; (3) they pursue market-based strategies, often sector-specific, that exploit market niches for clients; and (4) they seek to become sustainable elements of the local economy. An effective and sustainable strategy for poverty alleviation must combine the resources of the public, private, and philanthropic sectors in a coordinated fashion that plays to the strengths of each sector. Assistance must be decentralized in structure and responsive to local situations and institutions. A strong proactive element should accelerate dissemination and learning on best practice and support replication and continued innovation. (YLB)

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FROM THE BOTTOM UP:

Toward a Strategy for Income and Employment Generation Among the Disadvantaged

Fred O'Regan
Maureen Conway

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The Aspen Institute

FROM THE BOTTOM UP:

Toward a Strategy for Income and Employment Generation Among the Disadvantaged

An Interim Report

By

Fred O'Regan
Maureen Conway

The Aspen Institute
1333 New Hampshire Avenue, N.W.
Suite 1070
Washington, D.C. 20036
(202) 736-5800

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Executive Summary

Background

In the modern era we cannot segregate poverty alleviation from growth and competitiveness. First and foremost, we carry the moral responsibility to ameliorate the worst record on poverty alleviation in the industrialized world, but also we cannot hope to be competitive in the global economy while the very groups in our society on whom future productivity gains depend become increasingly marginalized into a permanent underclass.

Clearly, success in alleviating poverty on a national scale must entail proactive policy measures to promote sustainable job growth and to address the discrimination and inequities affecting the unemployed and the poor. But given the increasing social and economic isolation of the unemployed and the poor, *direct program interventions must form the cornerstones of any strategy to pull economically disadvantaged citizens into the mainstream economy.* Although national attention to, and support for, these interventions has seriously declined over the past decade, a growing number of programs and institutions have developed at local levels to promote employment and income generation among the unemployed and the poor.

To date, little work has been done to learn from some of the best of these programs, and toward that end The Aspen Institute has undertaken an ongoing action-research program—Local Employment Approaches for the Disadvantaged (LEAD). This exploratory work is based on direct assessments and continuing dialogue with roughly sixty such programs nationally, and is meant to: 1) describe the nature and range of existing programs in relation to different target populations; 2) to draw initial conclusions on factors related to success; and, 3) to indicate some overall policy directions for supporting community-based initiatives.

This is a preliminary report, issued to inform broader strategic thinking at this critical juncture when the new administration has engendered greater national concern over economic development generally and has reinvigorated thinking of roles and strategies within all corners of the development community.

Findings to Date

Existing local initiatives fall into four general categories, with numerous subcategories (See Figure One, p. 5). The major categories are: 1) Self-Employment; 2) Job Training and Placement; 3) Job Creation and Retention; and 4) Community-Based Finance.

To add further clarity to strategic thinking as to what seems to work for whom, we have also matched specific intervention strategies against five distinct client groups, which are too commonly lumped together under the rubric of "economically disadvantaged." These groups are: 1) the Working Poor; 2) the Unemployed; 3) the Persistently Unemployed; 4) the Dependent Poor and 5) the Indigent. (Figure Two, pp. 8–9).

The findings to date of this exploratory study have been encouraging. *Dramatically impressive model programs can be found across the spectrum of intervention strategies , and collectively these programs serve all levels of clients, from the homeless up to the temporarily unemployed.* Having survived the cutbacks of the 1980s, the best of today's programs, (unlike many of their counterparts in 1970s), are "leaner and meaner" models that collectively represent a new paradigm in development thinking. That is, they:

1. serve as empowerment vehicles by devolving responsibility for performance to clients while creating an atmosphere of dignity, discipline and high expectation;

2. link poverty alleviation directly to broader economic development goals rather than viewing it as an end in itself;

3. pursue market-based strategies, *often sector specific,* that exploit market niches for clients; and,

4. seek to become sustainable elements of the local economy itself (often by becoming an enterprise), not simply third-party assistance entities.

In fact, these efforts stretch the boundaries of the conventional term "programs" as they have evolved more into what should be termed "development systems" for the unemployed and the poor.

Most successful programs arise out of the local context, rather than top-down replication strategies, and develop through independent, usually non-profit entities that become very specialized in what they do—they are not bureaucracies, and normally not mainstream CDCs or Community Action Agencies. They are led by "social entrepreneurs," most often local leaders who combine social vision, and political acumen with the tenacity and business management skills needed to perform in this very difficult arena, and through very difficult times. These professionals are in short supply.

Even with these institutional and leadership qualities, it still takes years of testing and struggling for programs to mature. Very few programs evolve as initially planned, and virtually all of the better programs encountered have received flexible, patient financial

support, primarily from thoughtful foundations and the local public and private sectors. Most programs grow out of years of outreach, organizing and promotional work by local organizations and have received appropriate training and/or technical advice when needed through intermediaries. *Getting the right assistance at the right time is critical to sound program development.*

Program Support Strategies

There is much in the experience of current programs to inform strategic thinking. First, while any number of local programs are worth replicating, *there is no singular approach that can sufficiently address the diversity in both clienteles and contexts.* Second, given the nationally thin coverage of programs, any structural attempt at poverty alleviation must entail not only dissemination and replication of best practice methodologies, but also basic program and institutional development, including *staff training and leadership development.* Basic capacity building will be critical in any national attempt to broaden the base for poverty alleviation.

An effective and sustainable strategy for poverty alleviation should now be undertaken nationally. It must combine the resources of the public, private and philanthropic sectors in a coordinated fashion that plays to the strengths of each of these sectors. Assistance given to expand and strengthen the support base nationally must be *decentralized in structure and responsive to local situations and institutions.* At the same time, there must be a strong proactive element to:

1. accelerate dissemination and learning on best practice to avoid "reinventing the wheel" in hundreds of local situations, and, in particular, to broadly promote market- and sector-based planning and intervention strategies that are proving successful in so many programs;

2. support the appropriate replication of methodologies from model programs (including exchanges and interchanges with leading practitioners);

3. support continued innovation and learning in program areas with less accomplished methodologies for employment and enterprise development (e.g. micro-enterprise development, community-based finance, training enterprises); and,

4. integrate financial support for local institutions with training and technical assistance, especially for smaller and/or newer programs in disadvantaged communities and regions lacking an institutional base. This must include leadership training.

As history demonstrates, the Federal government must lead the way if a structural impact on poverty is to be achieved, and the time is right to do so. Unlike in former eras, however, the Federal government might best act as the *catalyst* and *facilitator* for a reestablished, longer-term employment and enterprise development strategy for disadvantaged citizens, but not its chief implementor. The government is best positioned to place the issue of poverty alleviation squarely within our emerging national economic priorities; establish goals and coordination strategies, gain congressional and public support, and provide seed capital to mobilize action. Given our currently diminished capacity to broadly promote state-of-the-art interventions, initial outlays should be modest, with a high concentration on capacity building. Investments from private, public, and philanthropic sectors should increase over time as absorptive capacity grows.

In meeting all of these concerns, the most appropriate strategy may be to *decentralize* decision-making, planning and finance to *regional levels*. This could involve the creation of regional entities (institutes perhaps), governed through representation of the federal, state and local government, philanthropy, industry and communities, with specialized staffs for training and program development and flexible financing authority. A regional approach would avoid central bureaucratic tendencies to focus on a delimited number of centrally driven strategies and instead would allow more flexibility and innovation in developing local- and region-specific approaches to poverty alleviation. Such an approach could also address serious regional imbalances in community-based efforts and institutions promoting improved employment opportunities for the disadvantaged.

Finally, all entities involved in financing and supporting employment-based poverty alleviation efforts must realize there is no "quick fix." As noted, most successful programs take years to develop the ability to have significant impact and to reduce or eliminate the need for grants or other soft monies. These efforts offer great hope for bringing a larger percentage of our population into the productive workforce, improving our economic viability and relieving some of our social problems, but a *long-term, sustained commitment must be made in order for poverty alleviation efforts to have an enduring impact.*

1 Introduction

Background and Purpose

Over a decade of neglect in promoting broad-scale economic development, combined with global economic restructuring and a deepening recession, have greatly exacerbated problems of unemployment and growing poverty. A decline in real wages of 17 percent since 1973, and wholesale dislocations within the workforce—particularly in manufacturing—have been added to the pre-existing chronic poverty found in our increasingly isolated inner cities and rural areas.

The 1980s, despite overall growth, witnessed a period of growing poverty and increasing income disparity in the United States. Between 1979 and 1989 the number of people officially recognized as poor increased by 25 percent to 31.5 million people.[1] The poverty rate in 1989, the seventh year of an economic expansion, was higher than that for any year of the 1970s, including the deepest recession years of that decade. As the economy weakened in 1989–1990, the problem has worsened. In 1990, the poverty rate climbed to 13.5 percent, about 33.6 million people.[2] Most recently, with job growth lagging behind an overall economic recovery and an increasing generation of low-wage, part-time work without benefits, fears continue to arise of a growing, and increasingly permanent underclass of the under employed and dependent poor.

Clearly, *first and foremost*, we carry a moral responsibility to ameliorate the worst record on poverty alleviation among industrialized countries. But the rationale for addressing poverty and unemployment problems takes on an added dimension in the modern, global economy. Indeed, "significant demographic trends have altered the flow of new entrants to the labor force to the point that over 85 percent will come during the next 15 or 20 years from segments of the population that have historically had the most limited educational and economic advantages—minorities, immigrants, and women."[3] As Ira Magaziner has succinctly put it, "The more people that we leave out in the cold in the economy, the more difficult it is going to be to get growth and to get the kind of skills and education distributed widely enough across our population to bring productivity improvement."[4]

Thus, unlike in previous economic eras, *we can no longer segregate poverty alleviation from growth and competitiveness either in thought or practice.* On the one hand, we cannot ethically sanction the existence of an increasingly permanent underclass; on the other, we cannot hope to be competitive with up to 25 percent of the population acting as a net drag on our resources.

A number of proactive policy measures currently being considered by the new administration are critical to employment generation and productivity, particularly measures to stimulate investment; to promote research and development in new technologies and manufacturing methods; to reform educational institutions in a way that links them to the labor markets they should serve; to improve and modernize infrastructure; and to develop a national health care insurance system that provides universal coverage, controls costs and removes distortions from the labor market, especially for the self-employed and for small businesses.

Alongside policy measures, however, *direct program interventions are clearly necessary* to provide training, enhance enterprise development, and promote other direct service and advocacy measures *to pull economically disadvantaged populations into the mainstream.* Unfortunately, our history nationally in this endeavor is spotty, and since the demise of the War on Poverty in the late 1970s, there have been few broad-based poverty-alleviation interventions to evaluate and thereby guide future planning. But in the absence of national strategies, an array of innovative locally based programs has continued to develop and expand throughout the 1980s and early 1990s. Donors and practitioners have long held that, while small in number and scale compared to our problems, these locally conceived efforts—found in the private-and-voluntary and local public sectors, and often supported by philanthropy and local public and private resources—can offer models to inform, at least in part, the articulation of a renewed national strategy for local growth and poverty alleviation. It makes even more sense to learn from some of the best of these models in an era when budget deficits will severely constrict Federal outlays for poverty alleviation.

Consistent with the national neglect of program development and operation, little work has been done in program analysis to broadly document and assess the diverse strategies at work locally. Toward this end, The Aspen Institute has engaged in an ongoing two-year action-research program, entitled *Local Employment Approaches for the Disadvantaged (LEAD).* Three fundamental concerns drive this work:

1. What does the field of poverty alleviation and employment generation for the disadvantaged look like from the bottom up?;

2. What approaches appear effective among different disadvantaged client groups (and why)?; and,

3. How can we replicate the best methods and institutional models to make a structural dent in poverty?

Given the problems of growing poverty and declining opportunities for finding "good jobs" (i.e., those which pay a decent wage and offer some security, benefits, and a

career ladder), we have sought out program examples which can offer models for breaking and reversing these trends. These programs promote growth from below to create employment opportunity on the one hand while on the other providing outreach, skills training, and capital for entry into or upward mobility within the mainstream economy. These interventions are even more challenging today as, due to the quickened pace of change in the economy, not only must programs assist clients in becoming viable economic actors immediately, but they must also help them to develop the flexibility and skill base needed to adapt to the inevitable but unpredictable market changes of the future.

In soliciting programs to examine, we have not attempted to address the full panoply of investment strategies and/or business development and worker retraining programs that clearly can have significant impact on employment and incomes in the active workforce. Rather, we have sought out programs across the board, operating at the local level, which involve, at least in part, direct outreach and assistance to the unemployed and the poor. The reason for this focus is the fact that *strategies for directed investment, economic renewal, and workforce retraining may well pass right over our growing and increasingly isolated underclass*—from the working poor on down—and that attention must be given to targeted strategies that pull the disadvantaged into the employment benefit stream.

The typologies presented thus address the categories of programs we have identified that appear to have direct impact on poverty alleviation through job and/or business development. Many of the programs cited, such as micro enterprise programs, are local initiatives wholly planned to address the poor. Other programs fall within the categories commonly associated with general business development and economic growth, such as business incubators and flexible manufacturing networks, but the specific programs cited herein were solicited for inclusion by being cited as models with *potential* for directly addressing employment for the poor. This point is significant, as we assess business incubators, for example, *only* with regard to their potential impact on local employment of the disadvantaged, and hence consider only those of a certain type and within particular locations. We do not address the viability of incubators as a general vehicle for the stimulation of economic growth.

Finally, we note the exploratory nature of this action study. Our purpose is to begin filling the broad gaps in knowledge regarding potentially sustainable poverty alleviation, and to reinvigorate national debate on this issue. With this in mind, we have largely encouraged program practitioners to speak for themselves in defining their efforts and to openly express their experience-based opinions regarding broader strategies. We hope that this initial overview of findings, based on the many truly enlightening discussions we have had to date with dedicated and resourceful practitioners, will be an effective first step in achieving this stated purpose.

Action Research Strategy

Initial findings from the first phase of this two-year program, currently nearing completion, are summarized in this report. This initial work has entailed field research to 1) document and assess roughly sixty notable programs nationwide; 2) define and categorize the major types of intervention strategies; and 3) match strategies and institutional types against differing levels and types of clients. A full report on the first phase, including short case studies of all projects visited, will be available in April. The second phase, will comprise more in-depth studies of the most relevant local and intermediary models, comparative studies of selected international programs, and a series of regional workshops with practitioners and policy makers to begin constructing interactive strategies from the bottom up. The examination of intermediary assistance strategies will be a key element of further research. The program will culminate in a conference of practitioners and policy makers aimed at informing a longer term intervention strategy from the bottom up.

2 The Major Assistance Strategies

Typologies of Local Programs

The programs identified in the field research to date may be categorized into two typologies, laid out schematically in the following Figures. The *first typology* (Figure One) charts programs by *goals and the types of assistance provided;* i.e., by their general purpose and assistance strategy. As noted in Figure One, there are three distinct categories of community-based employment/poverty alleviation programs: Self-Employment; Job Training and Placement; and Job Creation and Retention. All have a number of sub-categories, the major ones being presented in the Figure. Alongside and intertwined with these overall strategies is the field of Community-Based Finance. Examples of the programs cited in the text are given to illustrate the breakdown of programs.

We would note that no overall categorization in this diverse field can be perfect. There is considerable overlap, with some institutions having programs covering a few of

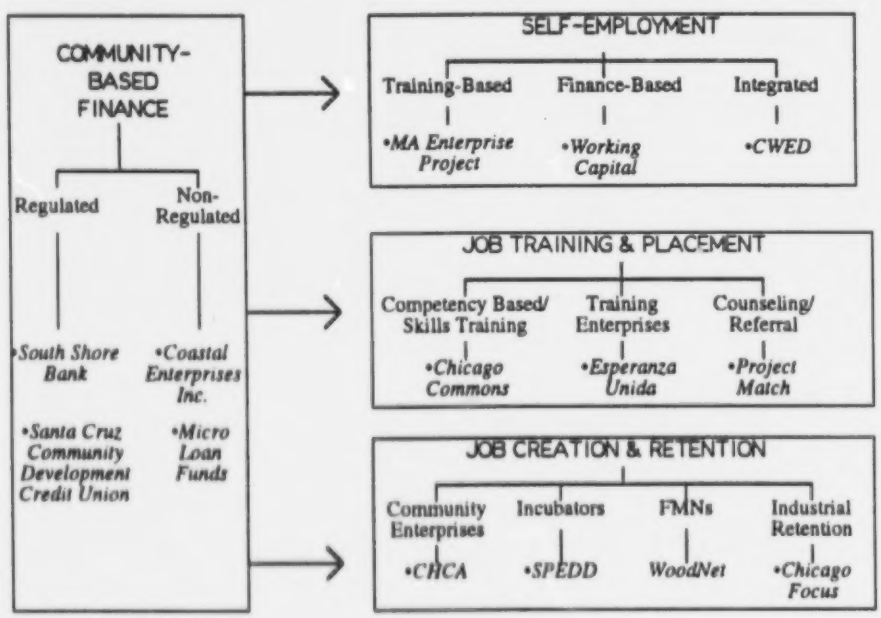


FIGURE ONE

the categories. Coastal Enterprise, Inc. (CEI) of Maine, for example, offers both business training as well as a continuum of financial services covering different levels of clientele, from microenterprises to medium scale industries. Like other diversified institutions, Coastal is thus cited in different assistance categories.

To further strategic thinking, a second breakdown *matches the types of programs encountered with different levels and types of beneficiaries* (Figure Two). The purpose here is to reflect upon the differing strategies needed to address differing assistance needs of the very heterogeneous group that is all too commonly lumped under the title "economically disadvantaged." We have identified five distinct groups of economically disadvantaged citizens being served by community groups. These are:

1. The *Working Poor*—part time, full time, or self-employed workers earning wages below the poverty line, and normally without health benefits—in 1990 nearly 8.7 million workers remained poor, 2 million of whom worked full-time, year-round.[5] The working poor have some connection to the mainstream economy, but suffer from inadequate incomes and benefits. Most need additional skills to access higher paying wage employment and/or access to capital in order to augment income through self-employment. In some rural areas, the sheer lack of job opportunities may prevent some reasonably skilled people from earning a decent income.

2. The *Unemployed*—either temporarily unemployed or structurally unemployed workers who may either be receiving unemployment benefits or be past the time allowed in their state. These are citizens with skills and work experience who are seeking work and constitute a legitimate extension of the active workforce. In November of 1992 the government estimated that 9.2 million people, representing 7.2 percent of the workforce, were unemployed. This figure includes individuals who are new entrants to the labor force, or who are re-entering the labor force after a period of absence as well as individuals who have recently lost a job.

3. The *Persistently Unemployed*—those outside the mainstream work world with little or no previous work experience and limited skills including inner city young adults, isolated rural populations and at-risk youth. Calculating the exact size of this category is difficult, but it is commonly understood that the needs involve outreach, basic training, and education with a heavy emphasis on involvement in both the economy and the society at large.

4. The *Dependent Poor*—welfare recipients, primarily women with children receiving AFDC support. In 1991, 4.89 percent of the total U.S. population, over 12.3 million people, received AFDC. In 1990, the most recent year for which these figures are available, fewer than 60 percent of children in poverty were recipients of AFDC, and

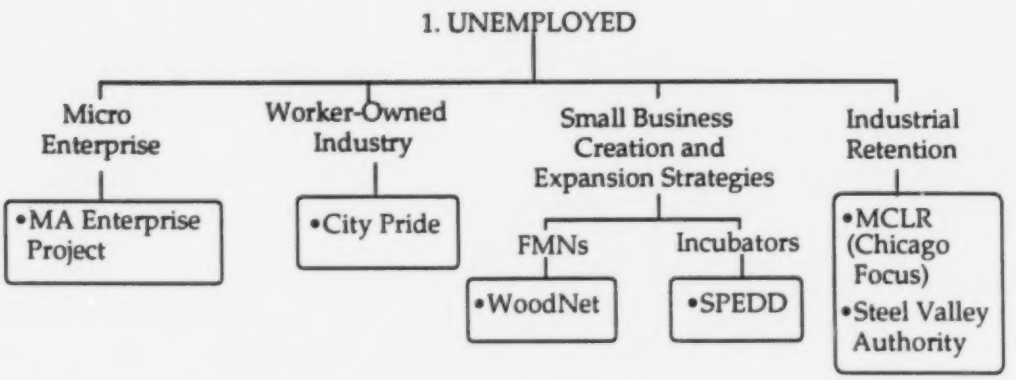
AFDC recipients represented less than half the pre-welfare poverty population.[6] In considering training or employment options for these individuals, the benefit restrictions associated with AFDC must be taken into account and the risk of losing benefits must be weighed against the expected gain from employment. For example, if a woman is to work away from her home, child care costs will be incurred and must be covered. The loss of health care for herself and her children, associated with a loss of AFDC benefits, also poses significant problems. These are real costs which need to be considered when a single head-of-household chooses employment. Providing viable employment and income-generating opportunities for this clientele becomes particularly important given the current thinking on limiting the length of time an individual can remain eligible for AFDC.

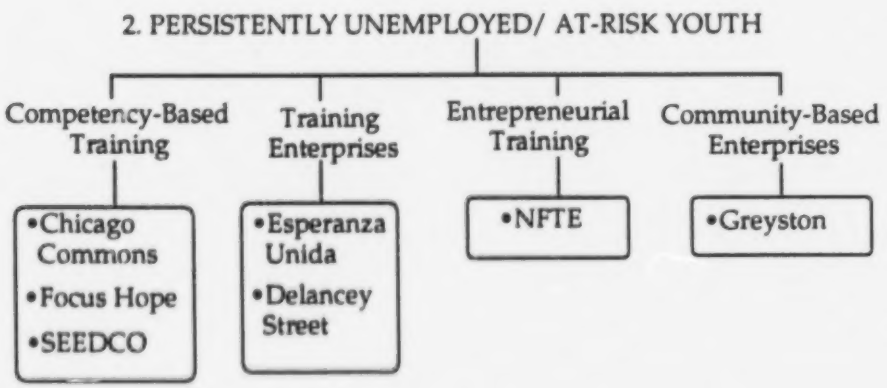
5. The *Indigent*—citizens with no viable means of support, work related or public (although some may be receiving general assistance, depending on the State); this includes the homeless. The National Alliance to End Homelessness estimates that on any given night some 750,000 Americans are homeless, and that between 1.3 and 2 million people will experience homelessness during the course of a year. They also estimate that another several million are doubled up in housing with friends or family, but with no independent home of their own.[7] The homeless often have other problems (sometimes a contributing factor to and sometimes the result of their homelessness) such as substance abuse problems, criminal histories, mental illness, and physical handicaps. As a result they often need other social services in addition to employment assistance. Other groups at risk of becoming homeless would include people housed in mental institutions or prisons who are due to be released, but have no independent home of their own.

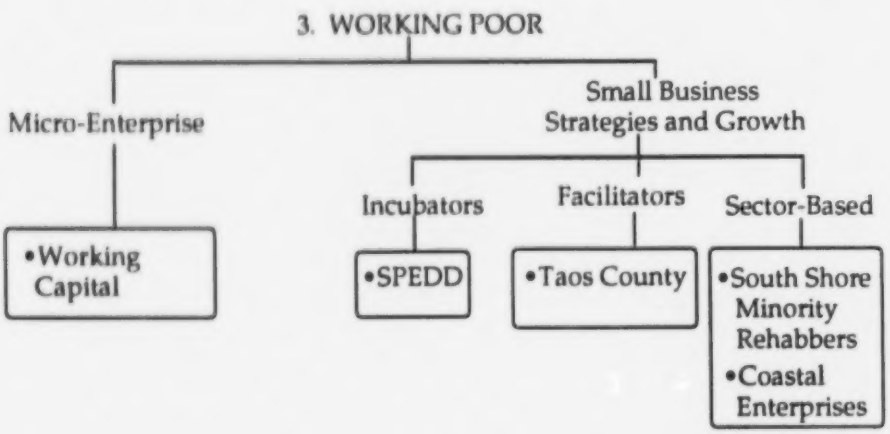
While these general categories are indeed definable, any "boxing" of people is at best imperfect: there is significant movement between categories (e.g., moving from conventionally unemployed to persistently unemployed, moving from welfare to the ranks of the working poor), and there is significant diversity within each of the categories (i.e., male-female, urban-rural, ethnic groups, etc.). As seen in Figure Two, when matching assistance approaches with types of beneficiaries, a few assistance strategies are found to service a number of client levels. Microenterprise Development Programs, for example, collectively assist the working poor, the unemployed and the dependent poor. Other approaches are more clearly targeted to specific groups. Competency-based skills training, for example, is largely targeted at at-risk youth and persistently unemployed young adults.

We discuss below the major assistance categories as they relate to different target groups, and conclude at the end of the paper with a discussion of overall findings and preliminary thoughts on future directions for the field.

Type of Beneficiary







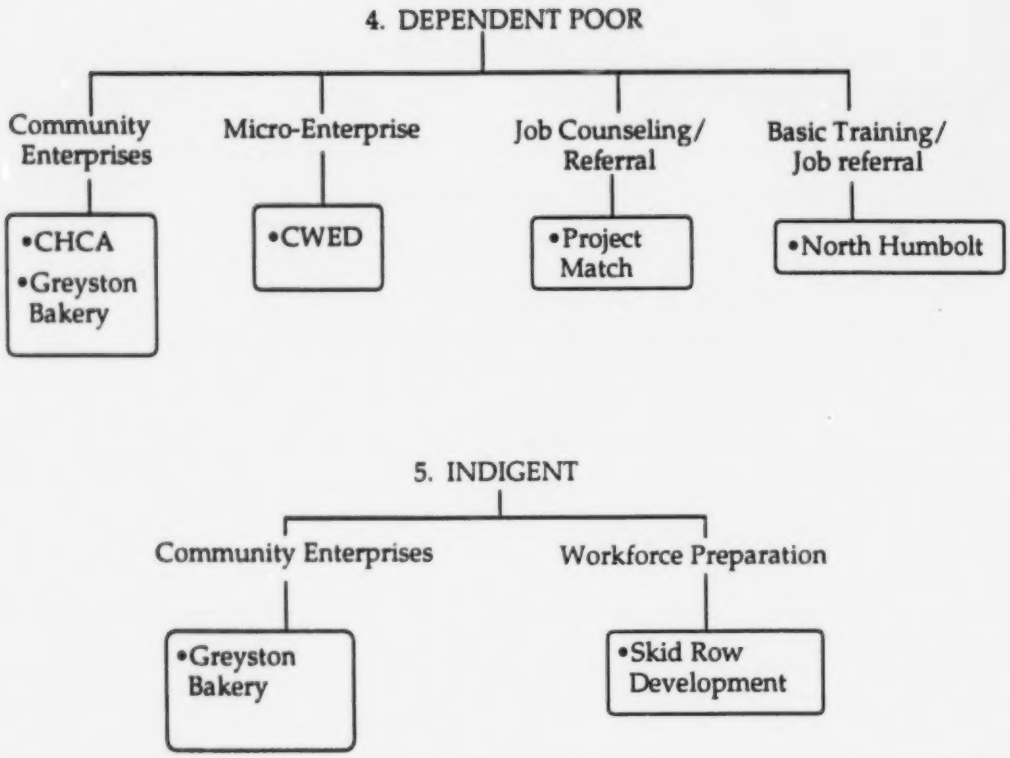


FIGURE TWO

Self Employment

Program Models

The Self-Employment category comprises microenterprise programs, a relatively new assistance movement in the United States which has added a much needed spark in community economic development by *relating to the unemployed and the poor as potential entrepreneurs*. Borrowing from the success of a diverse array of Third World programs, in the mid-to-late 1980s a number of local organizations in the United States began assisting business start-ups and expansions among clients who could not access conventional sources of services and credit. There are now upwards of 100 programs nationally.

Although still largely in the experimental phase (most programs are 2–3 years old), the self-employment movement has proven highly adaptable in reaching a diverse array of clients (Figure Two) through a variety of assistance methods. What defines the field is that all of the programs fill a gap in credit and services by assisting clients below the "bankable" level; i.e., people who have entrepreneurial ideas and ambitions but lack the assets, credit history, and contacts to secure conventional loans and who often need simplified financial and business management assistance.

One key way microenterprise programs differ is by the emphasis placed on financial vs. non-financial services. Some programs follow the *minimalist credit* model of the Grameen Bank and other Third World institutions. These programs minimize technical assistance and training and concentrate on credit to achieve internal sustainability through interest and fees. In New England, **Working Capital** promotes loans to the self-employed by working with 30 community-based agencies and commercial banks in Massachusetts, New Hampshire, Vermont, and Maine. They train staff from local CDCs and other non-profit agencies to promote loans among low-income, self-employed clients through self-selected groups which co-guarantee credits. As in the Third World models, group guarantees replace conventional collateral. Begun in 1990, the program has made 334 loans averaging $750 through 103 groups and has had few repayment problems. Loans sizes are fixed at $500 for first time borrowers, graduating in steps to $5,000 over time. Loan capital of $500,000 has been provided by low interest Foundation investments and matching funds from three banks who also administer the loans. Responding to client demand, Working Capital has shifted its approach by now introducing training in business planning and financial management.

Others programs concentrate more on *training and business counseling*. A good example is the **Enterprise Project** run by the Massachusetts Department of Employment and Training. This pilot program, begun in 1990 with the consent of the Congress, offers unemployed workers a nine-week training and business-counseling program to start their own enterprise. In exchange, clients forfeit the last six weeks of benefits—more with extended unemployment benefits in effect—but can opt out of the program and seek normal employment if they find business is not for them. The training, based largely on business planning, has rendered interesting initial results. Of the first group of 105 trainees, 62 percent either started a business or found a job during the training period compared to 38 percent in a control group; the number grew to 86 percent after one year. Also, the training costs of $1,200 per client compare favorably to the $1,400 per client saved on benefits.

Still other programs—the majority in the United States—offer *integrated* approaches which balance credit and training inputs. The **Coalition for Women's Economic Development (CWED)** in Los Angeles targets microenterprise assistance to very low-income self-employed women and AFDC recipients. Those with zero to six-months business experi-

ence start with a four-session marketing course to test business ideas; they then join more experienced clients in a twelve-week business planning and finance curriculum. Clients may then self-select into "solidarity groups" to receive first-time loans of up to $1,500; as with Working Capital, these loans graduate up to $5,000. To date, 800 women have finished training with roughly 100 receiving loans through 15 groups. Repayment has been steady except during the period of civil strife.

One further approach is the *sectoral*. For example, **Coastal Enterprises, Inc. (CEI)**, a business-specialized CDC in rural Maine, assists from micro-level up to medium-scale enterprises. For microenterprises and small businesses, CEI makes direct individual loans out of its Enterprise Fund, with total capital of roughly $3 million. Medium to large business loans are made from a separate fund. CEI usually subordinates its larger loans to leverage term lending from banks. Virtually all CEI's lending, however, is sectorally targeted. For larger loans, the natural resource (e.g., fishing) and environmental sector (recycled products) are dominant; for micro-to-small enterprises, services are promoted, especially in day care. By investing in sectors from bottom to top, CEI can better understand and adapt its lending strategy to leverage employment in growth sectors while better focusing its advisory work. To date, CEI has made 128 small-to-micro loans, ranging from $400 to $50,000, with a median loan size of $10,000 and average employment of 3.8 individuals per firm.

At the intermediary level, the Ms. Foundation in N.Y. has formed the *Women's Fund for Enterprise Development*, a collaborative of 17 women's self-employment programs across the nation. Ms. has pulled together a central fund to support both training programs for new projects and grants averaging $150,000 per project. In the analytical arena, The Aspen Institute's *Self-Employment Learning Project* (SELP) has surveyed 108 operating programs and published the first directory of micro enterprise programs. SELP is also conducting an in-depth assessment of five of the most mature micro programs, which serve a total of 1,027 clients, collecting longitudinal data on client performance. This will be the first impact assessment of the field at the client level. Lastly, a membership organization, the *Association for Enterprise Opportunity* (AEO) was formed in 1990 to represent the field on matters of policy, and to disseminate learning on best practice. AEO, based in Chicago, now has over 200 member organizations.

Assessment of Self-Employment: The Continued Search for Scale and Sustainability in the Shadow of Third World Models

The phenomenal pace at which the microenterprise movement has spread and adapted itself to different contexts, institutions, and clienteles has increased national attention on poverty alleviation and the possibilities inherent to treating the poor as entrepreneurs.

The clientele being served by most programs are clearly poor. With a roughly 75 percent client response rate, the SELP study found that 47 percent of those receiving assistance have family incomes below $13,950 (i.e., the working poor), while 33 percent have less than $6,000 (AFDC level). Of total clients, 56 percent are minority and 75 percent are women. Most businesses are either service (56%) or retail (32%). While self-employment does not appear viable for the persistently unemployed, for at-risk youth, or for the indigent, it is clearly an option among selected elements of the unemployed, the working poor, and AFDC recipients. There is no other specific approach which demonstrates this range. Herein, perhaps lies the key strength of the field.

Microenterprise programs clearly fill a gap in business services and credit left at the lower end of the economy, which is not served by government services, such as Small Business Development Centers, or by commercial banks. In doing so, these programs have *introduced a critical element of empowerment in assisting the poor by focusing on assets, ownership and connection to the mainstream economy*—elements heretofore lacking in most attempts at poverty alleviation, especially with AFDC recipients. Indeed, most practitioners claim that self-employment assistance makes a significant difference in client self-esteem and the setting of new trends, even if self-employment *per se* doesn't work out. While empirical data on client impact is just now being generated by SELP, our observations and interviews with clients at 10 different programs would tend to bear this assertion out, as would the significant difference in subsequent employment performance the Massachusetts Enterprise Project found between self-employment trainees and the control group.

This approach is clearly in line with modern thinking on empowerment strategies for the poor including, for example, the concept of Individual Development Accounts developed by Robert Sherridan and Robert Friedman, whereby gains in assets, not simply cash transfers, are seen as a major vehicle for the poor to share in the mainstream benefit stream.

Self-employment also faces some critical challenges in meeting performance expectations as it seeks further maturity. For one thing, the movement is caught in somewhat of a bind between the social and economic spheres. While socially oriented in their targeting, microenterprise programs are business development and finance related. As such they carry high expectations from donors, policy makers and other practitioners to achieve significant impact, scale and sustainability.

These expectations have been heightened by the comparison of much U.S. self-employment methodology to Third World counterparts, especially the "mega models" like the Grameen Bank in Bangladesh which lends $9 million per month and has 800,000 borrowers. The biggest of U.S. programs carry clients in the hundreds and many programs have demand problems for their loans. They require heavy subsidies, and the employment

generated beyond the self-operators appears minimal. For these reasons, there is concern as to whether a broad-spread national proliferation of microenterprise programs, as has been proposed, would render sustained structural impact on poverty. What is clear from performance to date is that self-employment most likely *will not achieve the scale and financial sustainability of Third World models, and should not be expected to do so.* The reason is the significant difference in contexts.

In the Third World, due to high unemployment in the formal economy and the lack of social safety nets, the majority of citizens survive through self-employment in the "informal sector" a parallel, extralegal economy operating underneath the formal (e.g., the millions of street vendors and petty tradesmen in cities like Mexico City). Being starved for affordable credit (i.e., not usurious "street rates"), Third-World microentrepreneurs view small development loans as a Godsend. It is on this basis that the huge "minimalist credit models" have been built. Training has largely been eschewed at this client level from the mid 1980s onwards (being viewed as being ineffectual and expensive) and savings and credit emphasized.

In the United States and in other industrialized countries, the poor are a heterogeneous, disadvantaged minority who do have social safety nets. Most are not self-employed and those who do have businesses or start them must compete in a highly regulated formal economy. (Whereas Mexico City, for example, has hundreds of thousands of micro-vendors from whom other poor people buy, we have 7-11s, even in poor neighborhoods). Hence the relative number of the poor who can be self-employed is comparatively smaller, and the need for training in marketing, business planning and finance is far greater. Program approaches in the United States increasingly reflect these differences. As documented by SELP, 95 percent of U.S. microenterprise programs surveyed offer training and 58 percent offer credit.

At present, *self-employment, like other strategies, might best be viewed more as an important part of an overall set of interventions in a given context rather than as a sufficient model for poverty alleviation.* While impact at the client level appears high even at this early stage of the field's development, there are concerns over the cost and sustainability of programs—especially with the growing need for training. The self-employment movement must therefore continue its search for *efficiency* and *greater cost recovery.* There are two factors which may be significant in this search.

First, the selection of sites and clientele seems highly related to both impact and scale. Los Angeles, for example, has an enormous "semi-formal" sector of trade and services involving thousands of Black and Latina women. CWED's provision of credit and services to this relatively untapped market certainly relates to the program's success. Not all cities

have this broad-spread micro-business tradition. In northern Minnesota there are high skill levels among workers but sharply increased unemployment due to industrial down-sizing. The Northeast Entrepreneur Fund in Duluth fills a critical gap by promoting self-employment and business start-ups among skilled workers. Both of these cases demonstrate the importance of *targeting self-employment programs where they match the specific needs of the clients and the local economy.*

Second is the importance of linking self-employment into broader institutional and financial resource systems in order to gain scale and sustainability. Working Capital, for example, with its emphasis on a central financial and administrative "hub" to administer credit and provide training to over fifty local organization who "buy-in" in to these services carries the advantages of a franchising system and clearly offers a model for achieving scale and sustainability where client demand may be broadly and thinly spread. Similarly, the microloan activities of Coastal Enterprises are linked into a multi-million dollar capital fund; this buttresses the financial strength of the microloan program while sharing technical and overhead costs more broadly. Northern Entrepreneurship Fund is in turn linked to Northern Ventures Fund, a venture capital fund which intends to cross subsidize operating shortfalls in micro-business promotion through returns on investments in larger firms. In all of these cases, the leveraging of financial and institutional support is key to broader based impact and sustainability.

Employment Promotion and Preparation

This category comprises programs which prepare clients for work through training and job referral. As seen in Figure Two, these programs mainly serve the persistently unemployed and at-risk youth and AFDC recipients. (As stated, we have not addressed retraining for employed workers in this study.) While concern has justifiably grown over the performance of conventional training and employment programs nationally, it is pleasing to note that there are some highly innovative models of world-class caliber in training inner-city youth for blue-collar manufacturing jobs.

We have divided the programs identified into three areas: *Competency-Based Training; Enterprise-Related Training;* (the former two mainly for youth and young adults); and *Outreach/Counseling and Referral* programs.

Competency-Based Skills Training and Placement

These programs represent the new wave of thinking on industrial training and job development based on a direct linking of the entire program to existing industries. These

are *sector-based* programs. To promote employment with a future, they identify industrial areas with shortages of skilled workers and then plan and conduct highly disciplined training curricula to specifically match the shop floor needs. In so doing, a number of these programs have become integral parts of the sectors to which they relate, and often evolve a leadership role to promote innovation and thereby protect job development for the future.

The **Industrial Training Program of Chicago Commons** is a case in point. The program was begun in 1984 by Mr. Rick Gudell, a scientist and community organizer who contacted local machining industries and discovered significant labor shortages for skilled workers. After failing to convince public vocational schools to adopt competency-based training with direct links to industry, Mr. Gudell undertook six months of training himself in metalwork shops and formed a network of interested industries to help design curriculum, recruit trainers, donate used equipment, and form a job referral network.

Today the program turns out roughly 300 inner-city young adults, mainly males, with training in screw machines, spring machines, plastics blowing, mechanical maintenance and industrial inspection. Over 90 percent of graduates are placed in jobs with starting salaries averaging $7.50/hour and the potential for substantial wage improvement. The network of cooperating industries includes over 400 firms, and through the network these firms have donated over $2 million in equipment. Training is highly disciplined, with mandatory drug testing. JTPA funds cover much of the costs for this training.

To protect the job market for trainees, the center has informally promoted networking among local industries to determine future directions in the face of foreign competition and other changes in the market place. This has now led to the creation of the Chicago Manufacturing Institute, headed by Mr. Gudell, which will define future industry needs in labor, technology and market development and spur innovation through, for example, a lending library of specialized tools and equipment.

Detroit's **Focus:HOPE** demonstrates the heights to which a community advocacy organization can aspire. Begun in 1968 as a civil rights organization by Fr. Cunningham, Focus:HOPE has evolved into a multifaceted training and enterprise development organization in the inner city.

Local youth (18–20 years old) begin training through FAST Track, an accelerated eight-week computer-based training program that upgrades quantitative and reading skills an average of two levels (i.e., to the tenth grade level needed for industrial training). Trainees are treated with dignity and respect, but are subject to high expectations. Training is 10 hours per day and run by an ex-military drill instructor; three "points" leads to dismissal and being one minute late earns one point.

Roughly 80 percent of the 1,200 trainees taken in per year finish FAST Track and can either be referred to jobs (employment is guaranteed for graduates) or enter Focus:HOPE's Machinist Training Institute (MTI). This 32-week course covers all basic machinist skills, including, at later stages, computer-based machining. MTIs graduates are in high demand with local machine industries, but are referred only to shops with Computer Assisted Design (CAD) capability. After one work year, students can re-enter the CAD course—38 weeks of applied math, blue print reading and computer work.

Focus:HOPE's expertise in modern machinist training has led to the creation of the $50 million Center for Advanced Technology (CAT). The CAT combines a six-year course in advanced flexible manufacturing with the operation of a national center for state-of-the-art manufacturing technology. It has been aided by a $15 million grant from the Pentagon to further flexible manufacturing in the United States. All of the cutting edge equipment operated at the center is run by inner-city graduates of the MTI who are now in the advanced training.

Enterprise-Related Training

Milwaukee's **Esperanza Unida** is a training center run as a set of businesses which provide contract and direct service work in the marketplace. The contract and service work provides competency-based training linked to markets while financing the training itself.

Esperanza Unida was initiated in 1985 by Mr. Rich Oulihan, a community organizer. The organization runs training/business units in construction/renovation, auto repair, auto-body work, woodwork, asbestos removal and day care. Currently over 100 people turn over as trainees per year. They are mainly African American and Latin low-income workers or welfare recipients. The organization covers roughly 70 percent of its operating costs. The balance of training cost is covered by local municipal funds (CDBG and JTPA) and foundation funding.

At the intermediary level, SEEDCO, a CDC-support organization in New York, is trying to replicate Esperanza Unida's success through the **Partnerships for Self-Sufficiency Program**. SEEDCO is providing finance and training to inner-city community organizations in Milwaukee and Wausau, Wisconsin, Dayton and Canton, Ohio, and Lansing, Michigan to develop training enterprises based on local market conditions and sector assessments.

The **Delancey Street Foundation** of San Francisco is a well known residence program for ex-offenders which is completely self supporting. Run entirely by its 300 residents, DSF stresses re-socialization together with skills development. Residents live in a $30 million facility, which the residents themselves built, and they receive skills training

mainly through working in a series of industries, all run on a profit basis. These include a moving business, a trucking business, a three-star restaurant and catering business, a computer-assisted printing business, a car repair shop, a film-editing studio, and a woodwork and framing shop.

Training is done on the basis of "each one teach one" with outside experts donating time on an as needed basis. Work is ten hours per day, and residents are expected to develop marketable skills in at least three areas. As 80 percent of DSF's residents go on to lead productive lives (ex-residents include a San Francisco City Councilor and the Oakland Fire Chief), the whole DSF experience is highly effective, the training included. What is less known is that the training enterprises generate over $6 million in annual sales—a large part of DSF total operating expenses.

The **National Foundation for the Teaching of Entrepreneurship (NFTE)**, founded in 1987 in New York, uses entrepreneurship training among at-risk youth as a motivational tool to succeed in academic studies and improve self-confidence for the future. NFTE conducts entrepreneurship workshops and trains local teachers to teach entrepreneurship in schools. The training includes after-school programs, in-school courses, and summer "business boot camps."

All students are given a business kit and a small grant to actually start a business and sell things. NFTE currently teaches about 1,200 youth per year and is franchising in twelve cities nationally by training instructors and licensing local affiliates. Results to date indicate higher academic test scores after the courses than before and a greater propensity for graduates to engage in profit-making activities. In follow-up studies, about 20 percent of the high school students trained were found to have actually kept running their test enterprise two months after the training course.

Outreach/Counseling/Referral

One of the most highly regarded and best monitored welfare-to-work programs is **Project Match** in Chicago which does outreach, counseling and job referral for AFDC recipients in the Cabrini Green Public Housing Complex. Originally affiliated with Northwestern University, Project Match longitudinally documents client progress to support research efforts which will lead to improved program design.

Working out of the local health clinic, Ms. Toby Herr and her staff promote work opportunities for welfare mothers through a broad system of outreach to employers in the Chicago area and a very supportive counseling approach, which stresses an open atmosphere and a holistic approach to life planning as well as career planning. Project Match

rightfully views the transition from long-term dependency to economic independence as a lengthy process, with starts and stops and the need for continuing support.

The project is able to place 91 percent of participants in private sector jobs. About 57 percent lose these low-wage transitional jobs within one year, but of these 66 percent are placed either in another job or an educational program within six months. It is key to note that many clients come to see the value of training after entering the workforce and realizing the importance of skills in getting ahead.

Similarly, the **West Humbolt Education and Employment Center**, another program of Chicago Commons, works mainly with very isolated Latina AFDC recipients. It concentrates outreach through schools, churches, and the local welfare office, and offers a constellation of support services: peer groups for mutual support, individual counseling, English and literacy training, GED education, skills training placements, and job referral and follow-up. All of this is combined with a large day-care facility. Roughly 150 matriculate yearly into the workforce; the length of time spent in basic training and counseling varies, with the program encouraging work as soon as it is feasible.

Assessment of Job Training and Referral: The Need for Networking and Replication

As all of these programs demonstrate, success in promoting employment among at-risk youth, the persistently unemployed, and the dependent poor requires a longer term, realistic vision of structural life changes combined with the provision of incentives and jobs for the future. Unlike other areas, such as microenterprise development, this field provides some very clear models of best practice, especially in training for inner-city youth.

Both Focus:HOPE and Chicago Commons target what is considered one of our toughest disadvantaged sub-groups, inner-city youth and young adults, and both have succeeded not only in training and placement, but in assuming *industrial leadership roles to promote innovation in the global economy*. Similarly, Esperanza Unida and Delancey Street Foundation, have had high impact in training and placement while *moving toward self-financing through trainee production*—a concept all too little recognized in national training policies.

All of these programs share two key determinants of success. First, unlike vocational schools, *they are independent and closely linked to markets and to local industry*. They have identified growth sectors *for jobs and linked training curricula and training styles to the shop floor, not text books*. Second, their relationship with trainees combines respect and a bolstering of self-esteem with discipline and high performance expectations as workers. The atmosphere created is one of production and achievement, and as with self-employ-

ment programs, this appears to have every bit as much to do with success as sound technical approaches.

Former Labor Secretary Brock commented on visiting Focus:HOPE that every city should have such a program. But they do not, and *replication of these programs appears hampered by a few factors: the size of up front investment; the combination of community development, business, and technical skills needed for success; and a constrictive policy environment, particularly within JTPA, that stresses placement-related performance contracting rather than long-term investments in innovative training cum production facilities.* Unlike other areas, such as self-employment, the training area has yet to develop strong self-identification and lateral linkages for replication and sharing of best practice. Surprisingly, for example, the leaders of Chicago Commons Industrial Training Program and Focus:HOPE have yet to meet.

Clearly, up-front government investment in training enterprises, which can internally recover significant costs overtime, and/or competency-based training institutions that leverage industry resources should be considered as a major strategy. The intermediary work of SEEDCO is a model to consider as a means of replication.

As shown through the experience of Project Match and West Humbolt, the transition to the workforce for AFDC adults long isolated from the mainstream is an involved process requiring an *integrated set of support services and a long-term commitment. As with most other approaches, outreach, training and referral programs for the dependent poor would best be linked to a continuum of other options including self-employment and employment created through community enterprises.*

Employment Creation/Retention

These programs explicitly seek to create jobs and influence local business development. The biggest factor in distinguishing programs within this category is that some create jobs *directly*, by creating new enterprises and hiring disadvantaged individuals, while others approach it more *indirectly*, by assisting enterprise start-ups and expansions at the small- to medium-enterprise level, or by improving the employment environment in an area with a large population of economically disadvantaged individuals. Direct interventions target more severely disadvantaged population groups, while the more indirect interventions work better with more experienced enterprises and entrepreneurs. Direct intervention programs would include *community enterprises*, while more indirect interventions include *business incubators, flexible manufacturing networks*, and *industrial retention* strategies.

Community Enterprises

Community Enterprises are businesses started and operated (at least initially) by a local organization interested in providing decent employment for disadvantaged individuals. These organizations look for a market opportunity in which they can compete effectively and are likely to become self-sustaining. They also seek to provide jobs which will provide a reasonable wage and experience which their employees can build on. Some of the organizations involve worker ownership, while others keep the equity in the hands of the sponsoring agency or seek outside investors. The businesses generally employ some sort of participatory management style in order to enhance self-esteem and a feeling of empowerment among the employees, yet they also maintain a disciplined, work-oriented environment.

Cooperative Home Care Associates is a worker-owned home health care agency in the South Bronx created as a project of the Community Service Society. CHCA trains individuals as home health care paraprofessionals and subcontracts with certified home health care agencies for the provision of home care services, which involves sending employees to provide service to a Medicare or Medicaid patient convalescing at home. In choosing to start a community enterprise, staff at CSS targeted the health care industry because of its long term growth prospects. Under the leadership of Mr. Rick Surpin, who was originally with CSS and has been with CHCA since its inception, CHCA has directly provided jobs to about 300 low-income, primarily minority women, the majority of whom were AFDC recipients, and has become a profitable enterprise, able to pay its worker/owners year-end bonuses of between $250 and $500. With its participatory management style, CHCA creates a supportive and empowering work environment which balances sensitivity to the needs of the employees with demands for excellence in job performance. Lastly, through its advocacy role in the health care sector, CHCA has succeeded in raising minimum salaries for home health care under Medicare in New York City. This could not have been achieved without CHCA being seen as a legitimate player in the health care industry.

Greyston Bakery in Yonkers, New York is a for-profit enterprise founded to employ the poor and homeless of southwest Yonkers. They also practice a participatory management style, through the use of work teams, and have overcome the problems encountered in their first few years to now be a profitable enterprise employing approximately 35 individuals at an average wage of $7/hour and with annual sales now approaching $3 million. Since their founding in 1984, they have employed over 200 poor and homeless individuals in their operations. The bakery began with the production of high quality cakes and tarts which they sold through department stores and other outlets. The sponsoring organization chose this market because they had some experience with a bread baking operation in San Francisco, but they chose to produce cakes and tarts (instead of bread) to

avoid competing with the large bakeries in their area. They then contracted with Ben and Jerry's ice cream, a socially conscious firm which likes to do business with similarly-minded employers, for the production of brownies and today this contract accounts for over half of their sales.

At the intermediary level, **The ICA Group**, a non-profit consulting firm, provides technical assistance to a range of clients, such as union locals, CDCs, and other community organizations as well as to national coalitions. ICA has been involved with over 20 community enterprises nationally, offering technical assistance and legal assistance. In addition, an affiliated organization, the ICA Revolving Loan Fund, offers loans and financial assistance to worker-owned enterprises and other community-based businesses. Founded in 1982, the Fund has provided over $900,000 in direct loans, which have been used to leverage an additional $6 million to community businesses that have created or retained over 700 jobs.

Business Incubators

Business incubators provide small flexible space, shared facilities and support services, and business assistance to young businesses in order to improve the survival rate of business start-ups. The services offered by business incubators vary widely, with some offering very few amenities and others providing a whole range of services, including everything from secretarial support and telephone service to marketing assistance, accountants, and legal services. Some incubators charge for services, others do not; some subsidize rent while others charge market rates. The function of incubators has also varied considerably, ranging from university incubators designed to facilitate technology transfer to inner-city incubators striving to promote entrepreneurship and business ownership among low-income women and minorities. The use of incubators in the United States has expanded dramatically in the 1980s, growing from about 10 in 1980 to 450 by 1990.[8] Given the diversity among business incubators, it is difficult to assess their effectiveness in a generalizable way. There are, however, examples of incubators which have been remarkably successful in promoting small-business start-ups in disadvantaged areas, creating jobs for the unemployed, and achieving a high level of financial sustainability.

The **SPEDD network** is a network of 17 business incubator facilities located in southwestern Pennsylvania and parts of Ohio. The sequence of events in establishing these incubators has varied, but the basic element include: an Entrepreneurship Outreach Program, which identifies potential incubator tenants and promotes business start-ups in general; incubator site selection; development of an incubator suitable to the expected tenants; provision of an array of services tailored to each incubator, but available to the local business community as well. SPEDD rents generally run close to the market rate and

SPEDD also charges fees for many of its business services. As each incubator matures, the incubator manager seeks to attract firms whose activities will complement those of the firms already located in the incubator, fostering more interaction among incubator firms and developing clusters of businesses within specific industrial sectors. Operating in an area which had just lost thousands of jobs due to drastic changes in the steel industry, SPEDD has helped create over 190 new businesses and offered opportunity to a number of displaced and unemployed workers. While clearly not strictly an anti-poverty program, the SPEDD network has offered unemployed individuals new ways to use the skills they acquired through previous work experience.

The **Fulton-Carroll Center**, located in an industrial corridor in Chicago's West side, comprises two buildings with a total of over 400,000 square feet of space and houses approximately 70 small and micro enterprises which together employ roughly 450 persons, the majority of whom come from nearby low-income, predominantly minority residential areas. The Center has been a significant factor in halting the slide of that neighborhood and making it once again a viable place in which to do business. Since they began operating in 1980, the value of their property has increased 500 percent and the vacancy rate in the area has dropped from between 20 and 30 percent to 6 percent. Fulton-Carroll tries to tailor rent terms to meet both the needs of its tenants and the cash flow needs of the Center and also offers business assistance on a fee-for-service basis. The center is financially self-supporting and, like SPEDD, has clearly had significant impact in small-business development and entrepreneurship in the area

Industrial Retention Programs

Industrial retention programs focus their activities on retaining manufacturing industries within a particular region. Due to the higher wages available in manufacturing jobs than in service jobs, the loss of these firms can often mean the employees of the firms have lost the ability to support their families. Factory closings have had a destabilizing effect on many communities, particularly in the industrial midwest where, during the 1980s, Chicago alone lost 135,000 manufacturing jobs and West Virginia, Ohio, and western Pennsylvania together lost over one million. Industrial retention programs generally try to retain manufacturing jobs by identifying industries which are operating profitably, but nonetheless are likely to shut down, and then mobilizing resources to combat this problem—for example by finding a successor for a retiring owner or by invoking government powers to prevent a corporate raider from liquidating the assets.

Chicago Focus, a for-profit firm started by the non-profit **Midwest Center for Labor Research**, offers a whole range of services related to mergers and acquisitions. The firm works with both buyers and sellers of manufacturing establishments and will assist in

securing financing for the acquisition. Chicago Focus also assists companies with the negotiations involved in a change of ownership and provides a whole range of consulting services to the new firms. Through leads from MCLR staff, trade associations, unions, local governments, community development corporations, and others interested in a stable economic environment, Chicago Focus identifies plants at risk of closing and then seeks buyers who are committed to keeping production local. These buy-outs often offer opportunities for worker ownership or for ownership by minority or female entrepreneurs. Since it began operations in 1989, Chicago Focus, together with MCLR, has arranged the local buyout of several small manufacturing firms in the Chicago area.

In Pennsylvania, the **Steel Valley Authority** is a state-chartered agency with powers of eminent domain, bond financing, and industrial ownership, which serves distressed communities in the lower Monongahela Valley. The organization strives to give workers more of a say in how capital should be invested in the region and to provide institutional structures so that plant closures and lay-offs can be avoided. SVA campaigns to educate the state legislature as to the housing and economic development needs of its constituent communities and assists municipal governments in their economic development planning. They have organized campaigns to fight plant closings and have been involved in several development projects, such as the Hays Redevelopment Project, which involves the conversion of a U.S. armory facility to a Sound Stage that can be used in making motion pictures.

Flexible Manufacturing Networks

Flexible Manufacturing Networks are a very new mode of development being tried in the United States. Based on European models, these joint and/or cooperative production and marketing networks are mainly being established on a pilot basis to strengthen the competitiveness of small-to-medium sized production enterprises in specific market niches, and thereby enhance quality job development for the longer term. FMNs are also seen as a means of addressing economic development prospects in rural areas and improving rural/urban linkages. As with self employment, these initiatives are still in the experimental stage in the United States and there are significant differences between the U.S. and European contexts in such areas as the type and quality of workforce education, the generally more aggressive role of European governments in economic development, and the geographic market focus of firms.

FMNs in the United States come in a variety of forms. Some involve firms in different phases of the production cycle collaborating to produce a finished product or line of products, while others include firms that produce similar products improving their capacity by sharing resources and jointly solving common problems. Generally these initiatives aim to improve the competitiveness of a particular region, and it is not known

to what extent strategies such as FMNs can directly address the needs of more isolated, poor populations. Networks operating in areas with large low-income populations generally will involve disadvantaged populations in some capacity. We have focused on such networks in our research.

WoodNet is a network of woodworking firms located in the Olympic Peninsula of Washington. All of the firms are small and a number of owners are low-income (exact figures are not available since WoodNet does not collect this information). The Peninsula has suffered as many lumber mills have closed, leaving residents who had high paying mill jobs unemployed and with few viable alternatives. WoodNet has assisted member firms in accessing both national and international markets as well as in identifying other firms on the peninsula with whom they can do business. With only a little more than one year's experience, WoodNet's efforts seem to show promise, but conclusive results cannot be cited.

The **Appalachian Center for Economic Networks (ACEnet)** is forming FMNs in the eleven-county Appalachian region of southeastern Ohio in order to assist in the development of higher wage jobs for the area, to gain efficiencies in production and marketing among small firms with excess capacity, and to improve the area's industrial base. Rather than organizing firms within a specific industrial sector, ACEnet focuses on vertical linkages, with different specialized firms in a network contributing to different stages in the production process or producing complementary products. Their first network, consisting of 30 firms in the areas of woodwork, engineering, office and furnishings design, metal work, and electrical work, is producing custom-built "accessible" cabinets and furnishings.

ACEnet is committed to providing employment opportunities to people who have been left out of the economic mainstream and is in the process of organizing a worker training program which will offer flexible on-the-job training in network firms to provide their target beneficiary groups with the needed skills to participate in a network. ACEnet has also established a for-profit subsidiary firm, Accessible Designs * Adjustable Systems (AD*AS), to act as a lead firm, coordinating production among firms and finding contracts for the firms to fill. The subsidiary also does some of the final assembly work in manufacturing the product. In performing this function, AD*AS should provide opportunities for non-traditional workers to gain experience in order to increase their chances of being hired by another FMN firm.

Assessment of Employment Creation/Retention

Most programs in the Employment Creation/Retention category require subsidy up front to meet capital and initial cash flow needs, but most have become self-sustaining.

SPEDD, for example, generates enough revenue through rents to cover the costs of their business assistance services and has developed the capacity to slowly accumulate capital so that they can continue to expand and develop new facilities. Greyston Bakery also operates profitably and has seen gross revenues grow substantially.

Many of the Employment creation/retention program also tend to *try to influence the market around them, rather than remaining passive participants.* For example, by becoming a significant enough player in the home health care market, CHCA was able to improve the quality of home health aid paraprofessional jobs in the New York City area in general. For its part, SPEDD added a needed business spark to an economically depressed region. Furthermore, in some of its incubators, SPEDD enhanced the development of a cluster of businesses within the same business sector, although the beginnings of the cluster occurred naturally. This process could quicken the development of new industrial specialties in the region. WoodNet is trying to help the Olympic Peninsula make the transition from a supplier of wood as a raw material to a producer of value-added wood products.

Clearly, *the further down the client scale one moves in terms of skills and employability, the more direct strategies for job creation become necessary.* For indigent citizens and welfare recipients, for example, social ventures such as CHCA and Greyston Bakery provide the first stepping stone for secure employment. At the upper levels, incubators, FMNs and other small-business development strategies become more relevant. Again, what is key is that virtually all of the better operating job creation models—at all client levels—need up-front investment, not ongoing subsidy, and one of the key problems most programs have encountered is accessing appropriate finance, on the right terms and at the right time. This leads to the necessity for locally accessible, non-conventional finance.

Business Related Community Finance

There is a critical credit gap in the financing of local small and micro-businesses, community enterprises, and other ventures that cannot access conventional credit due to lack of collateral or guarantees, and/or the costs to banks of appraising and administering numerous small loans. We do have a rather extensive system of community-based finance structures—CDCs, Community Development Loan Funds—but their experience and capacity is largely geared toward low cost housing, not business financing.

It is to fill this gap that a number of non-profit revolving loan funds have been created for microenterprise development, (CWED, Working Capital), and other non-conventional needs (e.g., ICA's fund for Community Enterprises). Most are financed by grants and/or soft-term social investments, and many, like Working Capital, use these

funds to leverage bank participation. Others are linked to larger investment entities. A key concern is linking local funds to capital markets and/or larger intermediaries. Some examples of this follow.

As mentioned, **Coastal Enterprises, Inc. (CEI)** ranges in clientele from microenterprises to firms with up to $7 million in annual turnover. CEI operates four funds: a Development Fund (loans over $50,000); an Enterprise Fund (below $50,000 including micro loans); a Venture Fund, (equity investments from $50,000–$200,000); and a Housing Fund. With larger firms, CEI often leverages bank investment by taking subordinate positions to encourage term financing for longer term growth. It negotiates employment for unemployed and poor residents as part of the deal. Through external leverage, CEI has stretched its $20 million in capital to participate in over $70 million in total lending. Linking its microlending into such a large program strengthens its Enterprise Fund while allowing for the sharing of financial expertise among a larger staff.

Similarly, in Duluth, Minn., the aforementioned **Northeast Entrepreneur Fund** (NEF) operates as a subsidiary of **Northeast Ventures**, a regulated venture capital fund that makes investments of up to $500,000 in order to create growth and employment. The NEF has to date made 50 loans averaging $6,000 to the low income self-employed. The financial strategy calls for Northeast Ventures to cross subsidize NEF through its investment profits.

The **Santa Cruz Community Development Credit Union (CA),** with a deposit base of $17 million and a membership ranging from low income to the wealthy, makes between 25–30 percent of its loans for small business development. It currently carries 120 business loans averaging $16,250 and covering a range of micro-to-small service and retail businesses. All loans are financed through member deposits; some are guaranteed through California Coastal, a regional guarantee fund for agriculture and business development. The Credit Union has an excellent recovery rate and would like to expand its business lending, but is continually pressured by regulators from the National Credit Union Association to shift more of its portfolio into safer real estate and consumer loans.

The largest and best known regulated lender in community finance is Chicago's **South Shore Bank.** The Bank is actually part of a constellation of affiliated institutions under the umbrella of the Shorebank Corporation, a one-bank holding company which owns 99 percent of South Shore Bank. These institutions include: The Neighborhood Institute, a non-profit community development organization; the Neighborhood Fund, an SBA-licensed Minority Enterprise Small Business Investment Corporation (MESBIC); City Lands, a real estate development company; and Shorebank Advisory Services, a consulting organization.

With a $220 million deposit base (52% from national sources), South Shore Bank is well known for revitalizing its low-income community largely through financing the rehabilitation of over 7,000 units of housing (30% of total local rental units), an investment of over $320 million as of 1992. Shorebank's business-development and job-creation lending is less well known. Initially (1972–83) the bank aggressively lent to local, mainly minority, small businesses and to start-ups. The failure rate was considerable and the Bank chose to emphasize housing finance as a more secure form of lending. Today, the South Shore Bank concentrates diversified small business lending to minorities primarily through SBA 7(a) guaranteed lending, channeling over $12 million annually city wide. The Bank also emphasizes franchising due to the ready-made technical assistance provided to the entrepreneur through the franchise entity.

Within the South Shore community, the bank's greatest business impact has been through lending, mainly on character, to local first-time rehabbers who have bought, rehabbed and then operated rental 12–36 unit buildings. Today they lend over $13 million annually to these entrepreneurs, who have also formed a network to share information and ideas. Clearly the availability of credit fueled a new market and created a new class of minority entrepreneurs.

Assessment of Community Finance: Fiduciary Responsibility v. Innovation

As these programs demonstrate, there has clearly been success in non-conventional lending. Their *offering of new types of financing to previously unbankable borrowers—microloans, sector-specific credit interventions—can indeed fuel the development of new entrepreneurs and new credit markets.*

The key issue at present is how to replicate successful community-based lending for business development and job creation. Based on the experience of successful entities to date, a key concern to be addressed in replication is that *locally-based lending to undersecured clients is an art, not a science, with success being gained through experience and a very firm grasp of local markets and the clientele.* In addition, there are two central requirements that must be met to insure the adequacy of the finance system to be established: 1) the need to provide *a continuum* of financial services to reflect the differing types of finance needed by enterprises as they develop to different levels (i.e., from unsecured group and individual credits for micro businesses through to a mix of larger loans and equity investments for growing small-to-medium and community-based enterprises); and, 2) the need to *leverage* capital from primary and secondary capital markets as a basis for growth in local credit.

There are trade-offs in meeting both objectives: As shown from the experience of Santa Cruz Community Credit Union and from the reluctance of most commercial banks

to date in obligating even CRA financing toward community business lending, *there are limits as to how far a regulated financial institution can go with unsecured lending*. Conventional fiduciary responsibility and regulation delimits the further experimentation in non-conventional finance that is critically needed for business and job development among disadvantaged clients and communities. A blend of conventionally borrowed and soft capital is in most cases the optimum solution. For this reason, the Shorebank institutional model has rightly risen to prominence: i.e., a holding company with both a deposit taking bank and other subsidiaries, including a non-profit which can take greater risks and perhaps be funded from philanthropic sources and bank profits. This model combines leverage with the concept of continuity of financial services.

The Congress is currently considering national community-banking legislation based on the Shorebank and other models, with a number of issues being discussed. These include the possibility of a new type of bank charter; the extension of development bank status to a number of other entities, including CDC, credit unions and micro-loan funds; and the possibility of a mandate for commercial banks to meet CRA obligations by investing in such structures. No decisions have yet been made, and the implications of community banking based on the Shorebank model are being considered by other types of community lenders.

While the need to directly link deposits with credit to achieve reciprocity is clear in the Third World, the necessity for this in the United States appears to differ by region. In New England, for example, Working Capital has leveraged half of its lending capital from local banks. Coastal Enterprises has leveraged roughly three times its loan capital from commercial banks through equity investments and subordinated debt positions. Deposit taking may not therefore be critical in raising capital in all regions. What does appear key to success from the experience of Shorebank and others is the *fueling of new credit markets at the lower end through combining promotion and technical assistance with customized financial services that meet specific enterprise needs as they arise*. As local institutional capacity to promote these new markets differs greatly by region, a *responsive, decentralized approach to the development of community banking* may have to be undertaken, with significant allowance for capacity building. As with all of the strategies cited in this report, community-based finance is a necessary but not sufficient mechanism for job creation. The success of these institutions will in large part depend on the local base of outreach, promotion, training and technical assistance to be provided mostly by other institutions. The appropriate *fit* of these finance institutions within the business and support-institution milieu—i.e., providing the right type of finance to clients selected and prepared through appropriate local organizations—is the key to success, and it is difficult to envision any mandated central structure to be duplicated nation wide that would fit all local contexts.

3 Some Initial Findings

Characteristics of Success

Collectively, the programs discussed represent a new wave of thinking among innovative practitioners: i.e., that *today's economically disadvantaged citizens should be viewed as tomorrow's producers and owners in the mainstream economy, and not as passive recipients of assistance.* What is shared in this new paradigm is a "catalytic" view of development assistance as an *empowerment vehicle that devolves responsibility for performance to clients while creating an atmosphere of dignity and respect, but also one of discipline and high expectation.*

As demonstrated in programs such as Cooperative Health Care Associates and many microenterprise programs, treating clients as full partners in the development exercise enhances self-esteem and encourages greater expectations of the future. These intangibles may well have as much to with success as whatever technical approach is adopted and are too often overlooked in conventional programs.

In the same regard, in virtually all successful programs encountered—from microenterprise models to competency-based training to community enterprises—*poverty alleviation is directly linked to broader economic development and is not viewed as an isolated goal in itself.* This is a critical difference from the more socially oriented approaches of the 1970s. Indeed, programs such as Focus:HOPE *demonstrate at the ground level the necessary link between competitiveness and poverty alleviation as well as any macroeconomic analysis can do.*

Furthermore, the cutting edge efforts in practice today stretch the boundaries of the conventional term "program" as they have evolved into what may be better termed "development systems." The systems approach is defined by a few key characteristics.

First a great many of these interventions are *sector and market-based: they identify and analyze potential growth sectors in the local economy and seek to exploit market niches for their clientele.* This may entail training and placements in selected industrial sectors (e.g., Chicago Commons), directly intervening to create better jobs in growth industries (CHCA and other community enterprises), or targeting lending and related assistance to growth sectors that can generate new employment (SPEDD's "clusters" of incubators in different sectors, and CEI's sector lending for microenterprises in the day care sector). As Shore Bank has done with minority rehabbers, sector-type intervention may also entail fueling new demand by targeting credit in a given market. What is key in most cases is 1) the

identification and analysis of a key sector for job-and/or business development; and 2) an intervention strategy which directly assists clients to exploit opportunities in the marketplace; and 3) an advocacy strategy to influence the sector either, for example, to allow job access to low income/poor workers and/or to strengthen "good-jobs" industries to retain employment opportunities. *Today's best programs are labor-and-market based, they are not the neighborhood based community-development programs of the 1970s.*

Secondly, many of *these interventions seek to become sustainable elements of the local economy, not third-party assistance programs.* Many evolve into enterprises themselves (CHCA, Esperanza Unida, South Shore Bank) to secure self-financing and insure discipline and competitiveness. Others directly link themselves into industry networks (Chicago Commons). In all cases they seek to become part of the marketplace and to influence it for the advantage of clients. Becoming a "player" within the industry in question—whether banking or manufacturing—cannot be underestimated as a development devise. *First and foremost, it allows for adapting the assistance provided to the rapidly changing economy of today,* and being on the "inside" is being best positioned to learn and adapt strategies. Second, and most important, most successful interventions maintain a strong advocacy posture, seeking to influence industries for the betterment of their clients. Whether advocacy takes the form of promoting better access to jobs, upgrading jobs, or trying to strengthen "good job" local industries, being seen as a "player" is key.

A third aspect of the systems approach is a *focus on promoting synergy and catalyzing development among the clients themselves.* The grouping of microenterprise clients into peer groups for training and loans, the clustering of small enterprises in incubators, and experimentation with Flexible Manufacturing Networks are all attempts to gain efficiencies and to "catalyze" development thinking and mutual support among clients themselves. This is what is meant by the term "empowerment" when used by most practitioners.

In short, the *better development efforts of today are for the most part not one-on-one assistance programs but collective, targeted interventions to create sustainable opportunities for the poor and unemployed in the marketplace.* While some microenterprise programs continue with one-on-one assistance, as stated, many are moving toward group and sector-based strategies to lower cost and increase impact.

Underlying specific approaches are a whole set of inherent characteristics that define good interventions. Institutional structure, for example, is a critical element linked to performance. The vast majority of these interventions arise through *private, autonomous organizations (profit and non-profit), or sub-units thereof, that are specialized in what they do. They are not bureaucracies.* Also, for the most part, they are not mainstream-type organizations such as CDCs or Community Action Agencies, but rather *independent organizations* that

have arisen in response to local needs and maintain the flexibility to change in response to external factors. A mixing of housing and/or social services with employment efforts is rarely encountered in the better programs, and most staff have specialized business and/or technical backgrounds.

But perhaps *the most striking factor encountered in these successful institutions is their truly exceptional leadership.* Economic development among the disadvantaged remains a difficult endeavor requiring a mix of political, managerial, and technical ability combined with strong commitment. Almost uniformly, the *truly sound interventions are lead by "social entrepreneurs" with the vision to innovate and the tenacity to see it through.* As with successful businesses, many of these programs seem almost inseparable from the vision and personality of their leaders, most of whom have arisen out of the community and have remained with the programs to the present. Many of the program leaders got their start during the War on Poverty and have evolved over the years into senior-level managers, having considerable experience in program implementation. However, with fewer programs being developed in the 1980s, there appears to be a shortage of experienced senior-level managers to undertake new programs.

Virtually all of the successful examples cited in this report have gained maturity and stature after many ups and downs that would have driven lesser individuals to have given up. CHCA, for example, was on the verge of bankruptcy after initial poor performance, and Greyston Bakery has just gone into the black after seven years of serious problems in maintaining cash flow.

In addition to excellent leadership, these success-story programs of today *have taken a number years to mature into viable entities.* Most sound programs develop *organically* out of local contexts; i.e., they develop directly in response to local problems and determine appropriate solutions. Chicago Commons provided ample administrative and other support during the development of the Industrial Training Program and also, through its years of local promotion, organizing and analysis, allowed the Industrial Training Program to tap an extensive community organizing and community service network. Focus:HOPE's training arose through civil rights organizing and a long-standing planning process for inner-city employment. ACEnet's flexible manufacturing efforts involving the unemployed arose out of the years of analytical and outreach work by its principles in organizing worker-owned enterprises in rural Ohio. Shorebank started small and continually grew through aggressively pursuing a local and national deposit base over a twenty-two year period. None of these successful programs have simply arisen over night. One may have a good idea, but it takes years to develop a viable support program and institution to successfully assist disadvantaged communities enter into the mainstream. *There is no quick fix* in developing sustainable interventions for poverty alleviation.

To allow maturation, *programs often have received ongoing technical assistance from local and national intermediaries, together with patient, flexible financing—most often from foundations.* For example, CHCA arose through the feasibility studies of and on-going technical assistance from the Community Service Society, an important player in promoting local programs for the poor in New York. The Industrial Cooperative Association has also provided CHCA with advice on matters of finance and worker management. Similarly, programs that succeed often receive initial grants and/or seed capital investment from *donors or investors with the patience to form long-standing relationships and the perseverance to stick with the entities through rough times.* Once sufficiently stabilized, programs then go on to access more conventional forms of finance, often leveraging a mix of public and private resources to sustain and/or expand operations. CHCA, for example, received initial grants from foundations and low interest loans from the ICA, and now utilizes mostly bank credit to finance working capital. Similarly, after receiving initial start-up capital and administrative support from Chicago Commons, the Commons Industrial Training Program evolved into a major JTPA contractor. Fulton Carroll, with initial financing from the EDA, evolved into a fairly self-financing venture. Loan guarantees from foundations and other sources have played a critical role in enabling both community-based enterprises and revolving loan funds to leverage additional assets. The *key point is that appropriate financial and technical assistance that is received at the right time and complements ongoing development activities in local communities appears to be directly linked to success.*

4 Support Strategies

The diversity and quality of programs examined to date speak highly of the ingenuity and resolve which still exists within the United States to address our more difficult economic problems. These programs clearly demonstrate that *there are indeed models which can render significant and sustainable impact in increasing incomes and employment among all groups of the disadvantaged.* The challenge now is to construct a targeted job-development strategy for the economically disadvantaged that successfully builds upon the program structure and experience that we have acquired to date.

In defining such a strategy, there are four distinct approaches, none of which are mutually exclusive:

1. expanding current programs to reach significantly greater numbers of clientele within their respective areas;

2. furthering linkages and collaboration among existing programs in given regions to gain efficiencies and reach greater numbers;

3. promoting the replication of model programs into other geographic areas, either through the lateral expansion of existing programs and institutions into other geographic areas and/or through the adaptation of successful program methodologies in concert with existing local organizations; and

4. creating new programs and/or institutions to fill gaps and/or demonstrate new approaches to address local problems.

First, while any number of local programs are indeed worth replicating, *there is obviously no "silver bullet," no single approach that can sufficiently address the multiplicity of needs among disadvantaged groups and communities.* As can be seen, different approaches target different levels of clientele, and given the differences in objectives and maturity among varying assistance movements, it is very difficult to render overall comparative assessments of differing approaches. The adult workforce of Northeast Minnesota, for example, with high skills and few employment opportunities, would favor micro- and small-business development, not competency-based training; while at-risk youth and under-skilled adults in the inner city of Detroit clearly need such training and job development. The same appears to hold true in community finance where in one area the leveraging of

commercial bank credit is feasible, and in another specialized financial institutions need to be developed. Some of the decision-making and promotion for expanded action—such as the mandating and regulation of community banks—must be a central, Federal government initiative, but in general, *centrally selecting specific approaches for national application appears to be a problematic undertaking*. Given the significant withdrawal of the Federal government from anti-poverty work over the past decade, leadership in thought and action now resides largely at local levels. Thus a more decentralized approach to assistance decisions is called for, as are increased interchanges among practitioners and the inclusion of leading practitioners within the policy-making arena.

Second, *we currently appear to lack the institutional and professional capacity to implement a broad, effective, and sustainable job creation and poverty alleviation program in the short term*. To illustrate this point, the panoply of interventions outlined in Figure One might best be viewed as a comprehensive strategy, full of options that most communities or regions would love to have in place. But the reality, of course, is far different. *Viewed from a national perspective, these innovative models are few and far between*, and local coverage in terms of even conventional employment and income generation programs appears very spotty. Indeed, in many policy discussions there appears to be a presumption of high capacity in, for example, blue-collar job training that is hard to find locally. Regional disparities are also significant: New England, for example, possesses more community-based development institutions than, for example, the Southeast.

Linkages among different programs at local levels are also thin, giving a dissipated look, from the client perspective, within a given region or locality; a continuum of financial and non-financial services—one-stop shopping—would be best. Also, given the dearth of financing in this field during the 1980s and early 1990s, many professionals have left and many remaining practitioners have understandably spent more energy on keeping their institutions solvent than on achieving scale. Thus both the institutional and professional infrastructure is weak in terms of implementing many of the new-wave type interventions. *Clearly, the transfer of information and skills on best practice approaches, the building of enhanced institutional capacity and leadership development must be viewed as cornerstones to a national strategy.*

While replication of existing models is taking place, it moves slowly. Shore Bank operates still in only three sites, CHCA is beginning its second site, and, through SEEDCO, training enterprises are starting up in five additional midwestern cities. Only the micro-enterprise movement appears to be spreading rapidly on its own momentum, at least in part due to the relatively low start-up costs and versatility of these programs. The most effective vehicles for the spread of innovation and for the replicability of successful methods are specialized intermediaries that can integrate training and technical assistance

with finance to local organizations. While few in number, there are some very competent intermediaries operating nationally and/or regionally. As mentioned, the ICA integrates training with revolving credit for the development of community-based and worker-owned enterprises. The **National Economic Development and Law Center,** Oakland, California, offers technical assistance nationally in the planning and implementation of sectoral development strategies that analyze growth sectors and target job development through a cluster of activities—from job-training referral and placement to enterprise creation and sub-contracting mechanisms. The Law Center is currently engaged with community-based organizations in Denver, Los Angeles, Portland, Oregon, and the San Francisco Bay Area in executing demonstration programs. At a regional level, the **Delta Partnership** combines three major programs linking the private, public and philanthropic sectors in Mississippi, Arkansas, and Louisiana. The programs, being managed by the Foundation for the Mid South, comprise: 1) the Delta Enterprise Corporation, a bank-like finance institution providing credit for small- to medium-sized business development; 2) the Delta Workforce Alliance, a decentralized worker-training program to be undertaken by local communities; and 3) the securing of commitments by regional businesses, including Wal-Mart, to purchase local products.

Clearly, we must *strengthen and expand intermediary institutional capacity* to in turn strengthen and expand the local institutional base—and this need extends to all fields, from self-employment to community banking. But unlike, for example, housing development, employment-based poverty alleviation is too diversified to adopt a "cookie cutter" approach pushing certain approaches from the top down. Rather, we appear to need *regionally focused systems strategies that reflect local sector opportunities, promote linkages among institutions, and implement approaches relevant to a specific client base.* Integral to a renewed strategy to expand interventions is the need to: 1) *disseminate information on best practice* (throughout the various categories of intervention cited herein); 2) *upgrade institutional and staff capacity in many organizations,* particularly in geographic areas severely lacking in coverage (e.g., the Delta region, as cited above); 3) *help create new programs and institutions and train local leaders;* and 4) continue experimentation in new program areas while *increasing evaluation and action-oriented research* to accelerate the pace of learning as the field expands over time. What is therefore called for is a *long-term* strategy of building a *diversified* and *sustainable* national effort for poverty alleviation—not a one-shot deal.

As demonstrated during the 1960s and 1970s, we can generate institutions and programs very rapidly in this country given the availability of central (federal) resources. Indeed, we often tend to forget that over half of those classified as poor crossed the poverty threshold during the War on Poverty—an endeavor entered into with "little theory and no proven methods."[9] Yet the institutional and program infrastructure of this era remained centrally dependent—its "market" remained the government not local communities—and

it therefore became non sustainable as central subsidies were withdrawn. We should not repeat this mistake .

Clearly, as both the New Deal and the War on Poverty illustrate, *the Federal government must take the lead role if a structural impact on poverty is to be achieved.* This is undoubtedly true in policy-making (e.g. health care reform, the adoption of earned income tax credits for the poor), but a leadership role is also needed to broaden the national support base for economic development programs for the disadvantaged. We need the leadership of the President and Congress in setting poverty alleviation squarely on the national agenda, in communicating its critical importance for continued national prosperity and social well being, and in defining realistic goals and time frames. For the past decade, philanthropy has largely led the way in local economic development for the poor, but foundations are the first to admit that national impact is beyond both their institutional purview as well as their financial capacity.

Given new thinking on the limitations of what the federal government can directly achieve, as compared to local entities, together with growing budgetary constraints, the Federal government should probably consider a new, more facilitating role in regard to program assistance. What we know is that programs that work are closely tied to, and deeply understand, local communities, local markets and local clients. Effective financial assistance to these programs—whether from foundations or Community Block Grant Funds—has largely been *responsive to their situation and ideas.* Leveraging of funds from different sources—public, private and philanthropic—also takes place to share risk, and enhance sustainability by diversifying the resource base. And lastly, technical assistance, training and information on best practice has been made available to these programs at the right time and with follow-up.

A combination of all of these factors will be critical to a long-term building effort; i.e., responsive, patient financing based on knowledge of local situations; leveraging of funds from different spheres; learning and dissemination; and provision of training and technical assistance. The diversity of contexts and assistance needs would argue against mainstream Federal Government agencies assuming a central role as the chief implementors. There are three critical reasons for this. First, at this point the job of poverty alleviation linked to growth is simply too complex and too long term in nature to be a government program in the conventional sense—it must be a national effort involving all sectors. Second, the Federal bureaucracy, even under committed and reinvigorated leadership, is too far removed from local contexts to make effective program judgments in the face of such diversity and is too fragmented structurally to offer the coordinated assistance called for. Currently, for example, the program areas cited in this report come under the purview of the Departments of Labor, Commerce, Education, Housing and Urban Development, Health and Human

Services, and Agriculture. While each retains significant expertise and experience within its relative domain, central coordination across all such departments and related agencies for a targeted national program for the disadvantaged (who are not the major clientele of most of these agencies) would simply be impossible in the eyes of most observers.

Third is the fact that Federal support for programs usually takes place through application or bid procedures within delineated programmatic areas. The SBA, for example, funds microenterprise programs through an RFP process that demands existing financial and institutional capacity. The result of this structure is predictable. While funding is made available, it is too often accomplished through organizations lining up to access finance in certain program areas—whether or not the approach in question, or the specific terms governing the funding, is the most relevant for its area and/or clientele. At the same time, the most sophisticated institutions and regions will often gain further access to funds at the continued detriment of other, often poorer regions (e.g., the Southeast). *Capacity building at local levels is simply not an area of competence of large Federal agencies and this is precisely the arena in which future success will be determined.* A case in point is legislation governing the advent of community banking in which, regardless of definition, regions with existing capacity in alternative financing will clearly benefit to a far greater extent than regions without existing capacity. And, again, the major need for any number of communities and clienteles may in fact be for more resources for job training and placement, rather than capital provision, or, more likely some combination of the two. To build a sustained base, we cannot continue to promote planning and capacity building along singular-approaches—approaches that change over time with the predilections of donor agencies. Rather, as success has shown to date, we need market-based strategies that allow for the adoption of differing approaches based on local opportunities.

Therefore, rendering the assistance process more responsive to the diversity of local needs and *getting decision-making closer to local communities and local economies* is key. For these reasons, the best role for the Federal government may be to act as the *catalyst and facilitator* for a renewed, longer term strategy, but not as the chief implementor or chief assistance provider. Instead, we might better consider *decentralizing decision-making to regional levels and adopting an integrated assistance approach involving seed finance, planning assistance, and significant training, not centrally allocated resources focused on a few select intervention strategies.* One concept that has drawn favorable responses in initial discussions with practitioners and donor representatives would entail the creation of **regional intermediaries**—organized on a multi-state basis, with large metropolitan areas possibly being regions as well. The idea is to develop assistance strategies more closely in tune to local communities and local economies. These might best be viewed as partnerships and be governed through the representation of federal and state governments and the private and philanthropic sectors with federal funds and matching support.

Mirroring existing successful intermediaries and with specialized staffing—drawn from the ranks of experienced practitioners—these entities could deliver a mix of financial and technical support to local programs. While maintaining significant autonomy, they could also relate to a central "hub" institute or appropriate, existing government agency for political representation, coordination (on a national level) of learning and interchange, and the design and coordination of overall policies, as determined in consultation with the local entities.

Regionalization, as opposed to centralization, would answer to a number of concerns. First, it would offer more of a responsive approach to program planning and expansion based on the particular problems and opportunities of local areas and economies, not national abstractions. In so doing this would mitigate the growth of central bureaucracies and their tendencies to focus on a delimited number of approaches determined by administrative position. Regional intermediaries, with specialized staff, would be far better placed to disseminate relevant ideas on best practice and provide specific training and technical assistance integrated with finance. Equally important, being outside the government per se such entities could form focal points to receive and/or coordinate federal assistance from among different agencies for local development.

Second, in line with new thinking on government action, it would allow the Federal government to play a leadership and "catalytic" role by forming local partnerships with philanthropy and the private sector, rather than assuming complete responsibility. By using federal resources to leverage matching funds, capital contributions could be increased and sustainability enhanced. Clearly, the most sanguine possibilities for forming legitimate partnerships among the public, private and philanthropic sectors reside at the regional, not the national level.

Third, decentralization could begin to address regional imbalances in capacity for poverty alleviation and job development. Through developing region specific strategies, regions with less institutional capacity could focus on the fundamentals of new program and institutional development, with financial support per region—both funding levels and degrees of subsidy—being adjusted to fit the needs. Given the high emphasis on capacity building that would undoubtedly ensue across the board in the early years, overall funding viewed nationally would be comparatively modest at the outset, growing as absorptive capacity grows. Different regions would probably develop quite different strategies.

Last, and most importantly, a regional focus represents the optimum focal point for promoting synergy among existing and new institutions and programs. It is the best chance to move toward the joint ventures and collaborative efforts that are a *sine qua non* for maximizing impact with limited resources. While local collaboration will by no means ever

be perfect, local intermediaries can definitely help us to move away from the existing competitiveness for central resources and the disjunctive nature of our efforts to date. In short, it could level the playing field while promoting a collaborative atmosphere focused on local clients and local impact.

Undoubtedly, undertaking a national effort of this magnitude on a decentralized basis would not be without risk. Private and philanthropic sectors may not wish to establish too close a tie with government in some regions, and securing of top quality staff may be difficult given the paucity of top quality leadership. Government agencies, fearing loss of turf, may also fight the notion. But we do know that moving decision-making closer to the scene is critical and *given the severity of our poverty problems, it is very doubtful that we will make much headway without bold measures.*

The LEAD Program Next Steps

Over the upcoming few months, the LEAD Program will be publishing a series of case materials of leading programs to present in more detail the elements of best practice highlighted in this report; these will mainly be geared toward increasing knowledge of best practice among practitioners. On the assistance strategy side, we will be examining a number of intermediary models, both domestic and international, and will also convene a series of short regional meetings involving practitioners, donors, government officials and clients. These meetings will further the dialogue on best practice while continuing the process of defining a national strategy for employment-based poverty alleviation from the bottom up.

One of the principal concerns of the meetings will be to further explore in greater detail the feasibility of a national strategy based on Regionalization. Among the issues are the following.

1. While reaction to the concept of decentralizing and integrating the assistance process for local programs is highly positive, there is always risk associated with placing—and financing—an institutional layer between sources of funding and local implementors. Will the integration of finance with support services in planning, staff training and information flow provided by intermediaries have the desired impact in capacity building and the evolution of "development systems," not atomized projects?

2. More specifically, what would a holistic development approach involving multiple agencies look like within a given regional context? What configuration would best emerge between, for example, community-based finance entities and local small-business, community enterprise and/or promotional organizations? To what extent can local organizations actually bend institutional boundaries to form a continuum of outreach , advocacy and services based on market approaches? What type of long term incentives must be in place to allow programs to effect this change?

At the same time, assuming local organizational support, would all the other necessary actors—government, philanthropy and the private sector also be willing to forgo full and direct control for the greater good? While there is significant rationale for doing so, the political will has not been tested in open forums. If the federal government is to be involved, what degree of authority could be given to these regional entities in, for example, the determination of community banking and job development policies as opposed to existing federal agencies?

3. How would development regions best be defined? Conventional thinking would dictate multi-state areas with political, historical and economic coherence—New England, the Delta, the Northwest—and there is much in the nature of local markets and sector breakdowns to support this approach. But given their special problems, should major metropolitan areas—New York, Chicago, Los Angeles—be viewed as distinct development regions? As far down the scale as they are from Washington, are multi-state areas still too far removed from local areas to make effective decisions? Taken together, multi-state and large metropolitan areas would appear to be the most effective locus to access market knowledge and entry, avoid central control and enhance local participation, but there may be other options that regional meetings elicit.

4. How would regional intermediary institutions best be structured? To operate effectively, these entities would have to combine the characteristics of research, training and financial entities into one organization. This is difficult but not impossible, and are there existing models to examine. These would include conventional, established entities such as the Appalachian Regional Commission the development components of the Tennessee Valley Authority—as well as newer demonstration models. The aforementioned Delta Partnership is one; and in the San Francisco Bay Area the Community Economic Development Support Collaborative has been formed over the past year through ongoing discussions among local foundations and community-based development organizations. Its purpose is to collectively define and implement a development strategy for the disadvantaged in the area. These models will be examined, as will existing national technical intermediaries and selected government programs and relevant foundations to outline specific options for the structuring of intermediary institutions. These analyses will address the issue of to what extent there are existing appropriate intermediary institutions to build upon, rather than creating entirely new structures.

Footnotes

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Self Employment Learning Project
The Aspen Institute

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The Aspen Institute

Publications Office
P.O. Box 150
Carmichael Road
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